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DEPARTMENT PLEASE PASS USTR FOR LERRION

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TAGS: [ETRD](#) [POL](#) [ECON](#) [TU](#) [SY](#)
SUBJECT: TURKEY-SYRIA FTA: NARROW SCOPE AND MODEST
EXPECTATIONS

REF: A. DAMASCUS 1082
[1](#)B. 05 ANKARA 7073

Classified By: DCM Nancy McEldowney for reasons 1.4 b & d.

This cable was coordinated with CG Istanbul.

[1](#)1. (C) Summary: Turkish government officials and businessmen do not share the SARG's optimism about the recently-approved Turkey-Syria Free Trade Agreement. Turkish officials tell us that Turkey's FTAs are dictated by European Customs Union requirements, and business contacts tell us that Syria is a difficult and insecure market in which to conduct business. Turkey's business community does not expect significantly enhanced economic ties between the two countries to result from it. End summary.

[1](#)2. (SBU) While the recent approval by the Turkish Parliament of the Turkey-Syria Free Trade Agreement has generated copious press coverage in Syria (ref A), the Turkish press has not shown the same level of interest. Turkey's bilateral trade and investment with Syria has increased substantially in recent years, but with a total trade volume in 2005 of USD 743 million, it represents a trifling percentage of Turkey's overall trade and economy (ref B). On March 7, Turkey's Parliament approved the legislation authorizing the Foreign Trade Undersecretariat (FTU) to sign the agreement, which will then require final Cabinet approval. It will enter into force two months following this approval.

Foreign Trade Undersecretariat

[1](#)3. (SBU) In general, Turkey's "FTAs" are much narrower than standard U.S. FTAs, and this one is no exception. According to Cemalettin Damlaci, FTU Director General for EU, Turkey's FTAs generally only include industrial goods and not comprehensive coverage of services, agricultural products, or investment. Damlaci said that Turkey generally agrees to abolish tariffs on industrial goods upon the date of entry into force, but it gives its partners the option of phasing out their tariffs over a period of time, usually four to five years. In the Syria FTA, Turkey will allow Syria to phase out its tariffs on Turkish products over twelve years. In regard to agricultural products, Damlaci told us that coverage is always limited in Turkey's FTAs, and is subject to ongoing negotiations after the two sides have signed the agreement. Under the FTA with Syria, Turkey is provided duty-free exports for limited quantities of goods (the

largest of which is 10,000 tons of barley). Syria gains duty-free export privileges for limited quantities of specified agricultural products (the largest of which is 1,000 tons of crude sunflower-seed or safflower oil), but Turkey maintains a 35 percent duty on 30,000 liters of wine coming from Syria.

¶4. (SBU) Damlaci explained that Turkey's decisions to pursue bilateral FTAs are predicated on their obligations under the European Customs Union (ECU) agreement. Under the 1996 agreement, Turkey had five years in which to harmonize its bilateral trade agreements with the EU's preferential regimes. In 2004, Turkey negotiated and signed agreements with Palestine, Morocco and Tunisia. In 2005, it negotiated FTAs with Syria and Egypt. He noted that Turkey has had some difficulty implementing agreements with several Middle Eastern countries with which the EU has preferential arrangements due to those countries' concerns about the effect of increased Turkish imports on domestic business. Turkey's FTA with Syria is one such example and required several rounds of negotiations before both sides agreed. In 2006, Turkey is still negotiating FTAs with Lebanon, Jordan, Chile and Mexico. The FTU is also holding preliminary FTA discussions with Algeria, although the GOA has indicated that, as of now, it is not ready to sign an FTA with Turkey.

¶5. (SBU) In addition to its ECU requirements, Damlaci discussed Turkey's obligations as a participant in the Euro-Mediterranean (Euro-Med) Partnership. In the 1995 Barcelona Declaration, Euro-Med Partners agreed to establish the Euro-Med Free Trade Area (EMTA) by 2010. The EU is currently negotiating Euro-Med "Association Agreements" between itself and its partners that include trade preferences. Euro-Med participants include the 25 EU member states and Algeria, Egypt, Israel, Jordan, Lebanon, Morocco,

the Palestinian Authority, Syria, Tunisia and Turkey. Libya has been an observer since 1999.

Ministry of Foreign Affairs

¶6. (C) MFA D/US for Bilateral Political Affairs, Ahmet Uzumcu, told Ambassador March 21 that the Syria-Turkey FTA resulted from Turkey's obligations to the EU, which was earlier negotiating its own (never signed) preferential trade agreement, and asked the GOT to engage. Uzumcu emphasized that Turkey regularly briefed the EU on the status of FTA negotiations with Syria, and the EU never indicated that they wanted Turkey to stop talks. The MFA views the FTA as a purely technical agreement that could provide more economic benefits to Turkey than to Syria. Uzumcu argued that the agreement is in the long-term interest of the international community because it could provide the outside world with greater access to the Syrian economy. He asserted that the Syrian people view Turkey as a model and envy the Turkish people and their standard of living. The FTA is a technical step toward engaging the SARG to promote openness and reform.

¶7. (C) Ambassador cautioned that this agreement would be seen as political. Uzumcu stressed that the GOT has curtailed its high-level contact with the SARG. The GOT is trying to "tame the regime," he added. Since they do not believe a better alternative is in the offing, the GOT has no alternative but to cooperate.

Turkish Business: Large-scale Trade Not Happening

¶8. (C) Turkish businessmen do not expect significant results from the FTA. Turkish-Syrian Business Council head Fatih Karamanci downplayed the prospects of the agreement significantly increasing Turkish trade with Syria, and added that the Council did not lobby aggressively for its ratification. He told us that Syria had historically been a good place to export, but Turkish businesses have encountered increasing difficulty because of worldwide price competition and Syria's participation in the "Greater Arab Free Trade

Agreement." Syria has had much lower cost access to the Turkish market than Turkish businesses have had to Syria, but the FTA should equalize this to some extent when it is fully implemented (after 12 years). Karamanci emphasized that the FTA was not a business initiative, and that the Council does little more than act as an instrument for hosting Syrian trade delegations and government officials. They try to propose solutions to business problems, but the Council has little influence on verall policy.

¶9. (C) Echoing comments b the Secretary General of the Chamber of Indutry of the southeastern city of Gaziantep, which is located just north of the Syrian border, Karamanci also argued that there is little potential for Turkish-Syrian trade. Syria lacks the infrastructure to cope with increased trade, and Turkish businesses continually encounter problems with security, banking, transferring funds and ensuring implementation of contracts. Karamanci, who is active in Turkey's textile sector, has lessened these problems for his own business by requiring full payment for goods prior to shipping them. He doubted that the FTA will result in increased Turkish FDI in Syria due to the lack of security and infrastructure. He questioned why a Turkish company would take the risk of investing in Syria when Dubai or even Lebanon are much more attractive alternatives. To date, only six companies have established private investment projects in Syria, and three additional Turkish companies have submitted offers for government tenders related to construction (historically a strong industry internationally for Turkey).

¶10. (C) Comment: While the SARG may be intent on hyping this agreement as evidence of their decreased isolation and growing trade potential, Turkish officials and businessmen do not share their opinion of its importance. Turkish Foreign Trade Minister Tuzmen is a career trade bureaucrat who specializes in FTAs, and as Minister he has made it his goal to sign as many as possible. The agreement will have little, if any, short-term economic impact, and its long-term impact will rely on Syria's ability to improve its infrastructure and capacity. We do not expect this FTA to either significantly enhance Turkey's trade with Syria or the political ties between the two countries. End comment.

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